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DEPARTMENT OF ECONOMICS

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HENRY C. WALLICH

Seymour H. Knox Professor of Economics

August 15, 1973

Professor Joshua Lederberg
Department of Genetics
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Stanford University
Stanford, California 94305

Dear Professor Lederberg:

Thank you very much for your nice note and enclosures. I regret to say that the historical evidence relating to indexed securities is not favorable. They have been tried in a number of countries and have generally been abandoned. This would not keep me from recommending them, as I have done in the past. In a recent paper, I have reverted to this proposal, and am enclosing a copy. Please see the last couple of pages.

In one connection or another I am also trying to elaborate the proposal, which of course presents certain technical difficulties. For instance, it seems obvious to me that any premium to compensate investors for inflation losses must be tax exempt. A premium for fire losses, for instance, that was subject to income tax, would not be regarded as very sensible. Nevertheless, many of the critics of my paper have argued that the inflation premium should be taxable. If it were made tax exempt, it would offer opportunities for high bracket investors to borrow, deducting the interest from their income tax, and collect the taxable real interest rate plus the non-taxable inflation premium. This would have to be prevented, and of course there are means of doing so. The question is whether the complications would ultimately kill what seems like an obvious device.

As regards variable interest rate mortgages, I have written about those too, including in Newsweek. Recent discussion of them has been relatively favorable. However, in legislative experience set-backs have occurred, and I recall reading that some state legislature, or possibly a trade association, moved to eliminate variable interest rate mortgages.

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Professor Joshua Lederberg

I am glad to know that there are academics, albeit outside of economics, who object to inflation. Among my colleagues, I am regarded as unreasonable in my own anti-inflation attitude.

With best wishes,

Sincerely yours,

Henry C. Wallich

Henry C. Wallich

Enclosure.

HCW:cv

*not inflation -
saves capital
when money is
available but the price*